IFRS 9 IMPLEMENTATION IN EUROPE

JANNIS BISCHOF | MAY 30, 2018 | BRUSSELS | CEPS PLENARY DISCUSSION

Some Background on IFRS 9

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International Accounting Standards Board®

Press Release

13 October 2008

IASB amendments permit reclassification of financial instruments

The **IASB changed bank accounting rules** at the peak of the 2008 crisis

⇨ A response to **pressure from the EU** (Sarkozy, McCreevy, …) …

EUROPEAN COMMISSION
Internal Market and Services DG

The Director-General

Dear Sir David,

Subject: Further issues related to IAS 39

The ongoing financial crisis requires all parties to seek urgent solutions, which requires a creative and flexible approach. We welcome the IASB's prompt response to the ECOFIN Council of 7 October. We now expect the IASB to clarify certain practical aspects to ensure the effective implementation of the recently adopted amendments to IAS 39. Moreover, the endorsement of the IASB's recent amendments to IAS 39 and IFRS 7 on 15 October was only a first step in an ongoing process to comprehensively address accounting issues raised in the context of the financial turmoil.

… **EU** calls for **further actions**

⇨ Starting point for work on **IFRS 9**

Some Background on IFRS 9

Bank accounting has traditionally been **a combination of** …

Fair Value Accounting

- Use of current market prices
- Gains and losses

Amortized Cost Accounting

- Provisions for loan losses
  - No gains before sale

IFRS 9 brings **changes to both concepts**

Two Initial Ideas

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Reduce fair value accounting

EUROPEAN COMMISSION
Internal Market and Services DG

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Finally, recent developments raise broader issues related to the role of fair value accounting for financial instruments which we intend to explore further with all stakeholders as a matter of urgency. This issue should also be comprehensively addressed in the context of ongoing IASB projects. There may be a need to adjust the timetable of ongoing projects to reflect the immediate needs of the current crisis.

BASEL COMMITTEE ON BANKING SUPERVISION

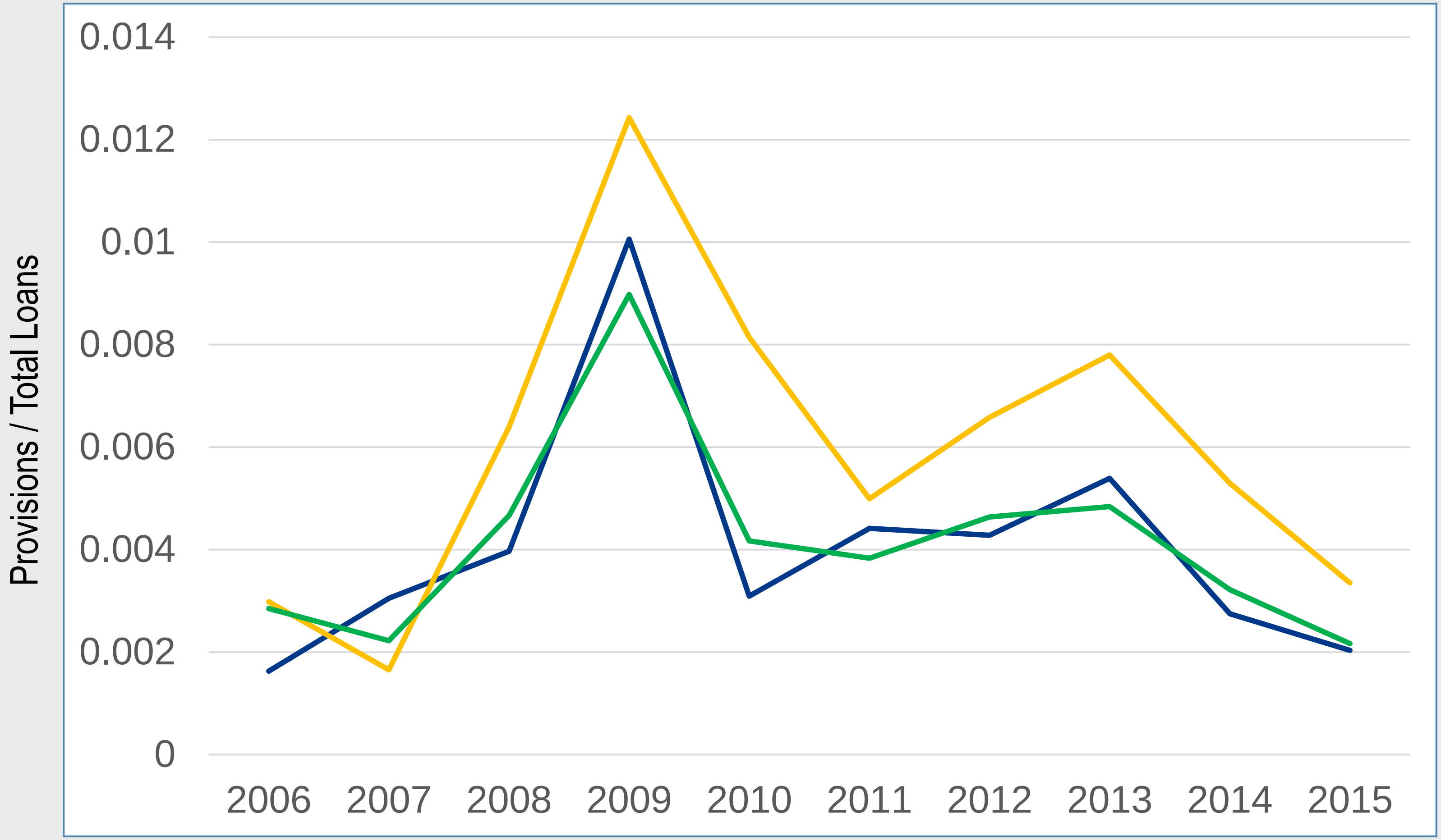
BANK FOR INTERNATIONAL SETTLEMENTS

Chairman

Recognize loan losses earlier

achieving this objective is incomplete.[3] The Committee also recognises the need to build up adequate levels of provisions on the balance sheet to absorb all credit losses when they occur to address the too-little-too-late problem associated with the incurred loss model. Not reflecting an adequate level of an allowance on the balance sheet could result in overstating the related asset balances as well as the yield on those assets in any given year in the Income Statement. This could be potentially misleading to investors, users, and other market participants, while also raising safety and soundness concerns for prudential supervisors.

Why Expected Loan Losses?



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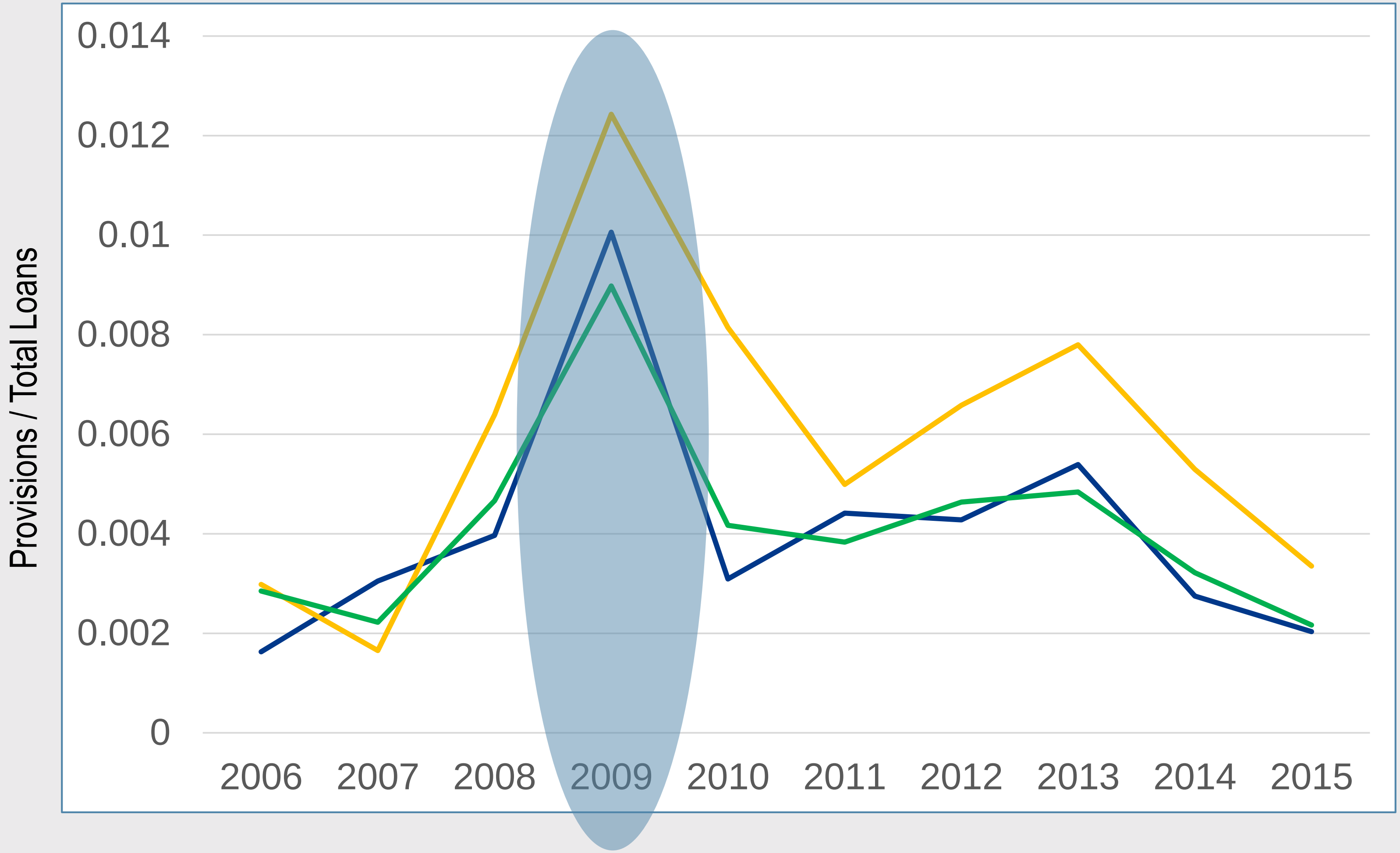

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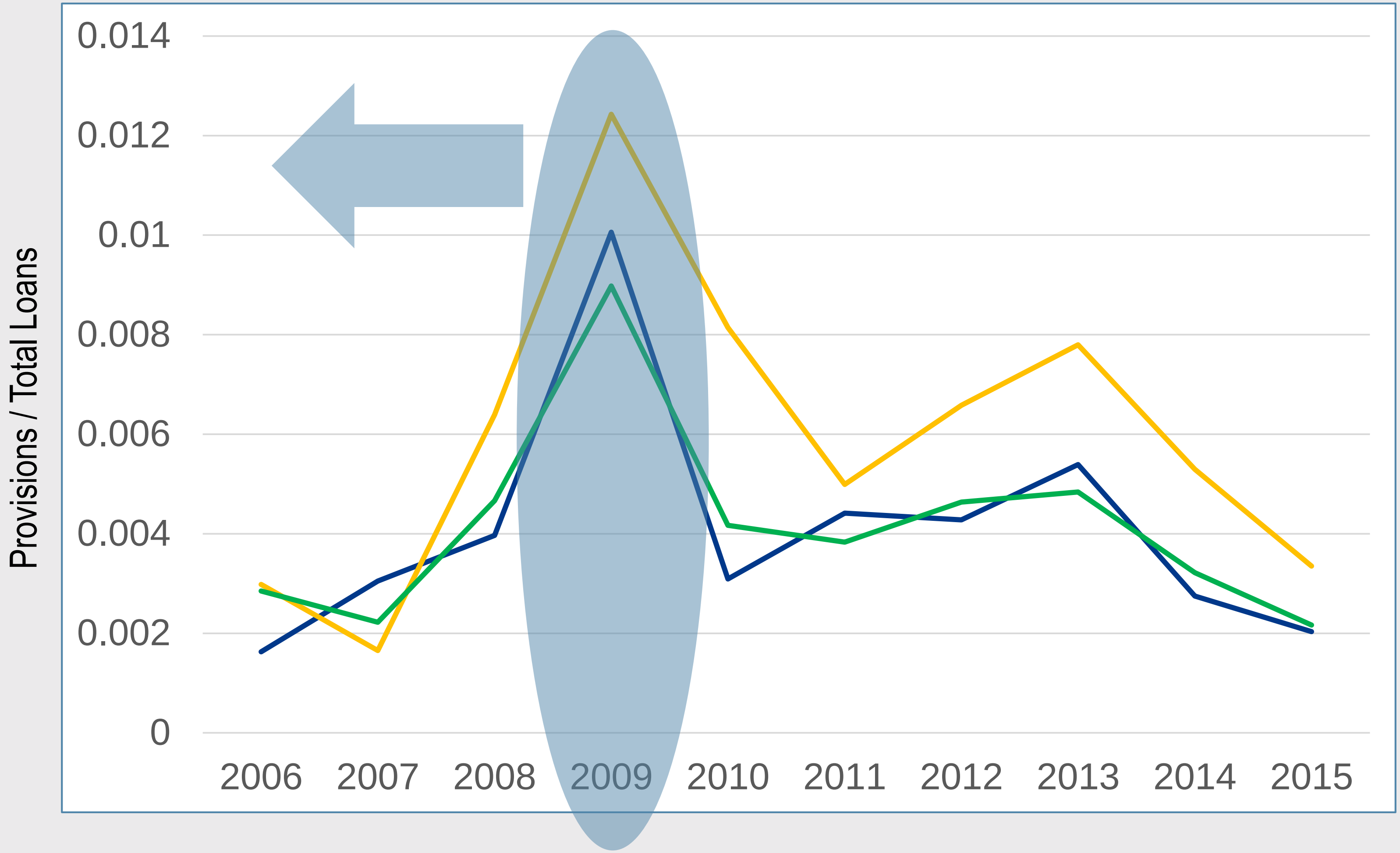

What Happens? Early Evidence

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Reclassifications: **Both Directions**

Bank A:
Capital market-based business model

	IAS 39	IFRS 9
Amortized Cost	54%	51%
Fair Value	46%	49%

Bank B:
Loan-based business model

	IAS 39	IFRS 9
Amortized Cost	70%	71%
Fair Value	30%	29%

What Happens? Early Evidence

Equity: Negative, but Modest Impact

(13 banks)	Equity
IAS 39 (Dec 31)	11,304m
IFRS 9 (Jan 1)	11,133m

- Decrease by **1.7%**
- **61%** of the decrease comes from **expected loan losses**
- **39%** of the decrease comes from **reclassifications**

However: The impact is not uniform and **varies substantially across banks**

THANK YOU !

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